

M E M O R A N D U M

June 9, 1983

TO: BOSTON REDEVELOPMENT AUTHORITY

FROM: ROBERT J. RYAN, DIRECTOR

SUBJECT: MEDICAL AREA TOTAL ENERGY PLANT, INC.
APPROVAL OF CHANGES TO MINIMUM STANDARDS FOR FINANCING

Attached to this Memorandum is a letter from the Medical Area Total Energy Plant, Inc. and Harvard College which requests the Authority's approval of certain revisions to MATEP's 121A Minimum Standards for Financing which were approved by the Authority on October 9, 1975. These proposed changes are set forth in detail in the attached letter. Attached as well is a copy of the Minimum Standards as originally approved by the Authority.

The Authority's finance staff has reviewed the proposed changes as set forth in the attached letter and found them to be appropriately in furtherance of the MATEP project's feasibility. Since the Minimum Standards themselves contemplate and permit the Authority's approval of such changes, it is now recommended that the Authority approve the attached changes to MATEP's 121A Minimum Standards For Financing.

An appropriate Vote follows:

VOTED: That certain changes to the Chapter 121A Minimum Standards for Financing, Maintenance and Management of the Medical Area Total Energy Plant, Inc., all as set forth in the attached letter from MATEP and Harvard College dated April 22, 1983, be and hereby are approved; and the Director is authorized to execute appropriate acknowledgements necessary for financing documents.

Medical Area Total Energy Plant, Inc.

Office of the President
Holyoke Center 964

1350 Massachusetts Avenue
Cambridge, MA 02138
(617) 495-1920

April 22, 1983

Boston Redevelopment Authority
Boston City Hall
City Hall Square
Boston, Massachusetts 02201

Re: Medical Area Total Energy Plant, Inc.
Request for Approval of Financing under the
Minimum Standards for Financing Promulgated
for Medical Area Total Energy Plant, Inc.

Gentlemen:

In accordance with Section 13 of Chapter 652 of the Acts of 1960, the Boston Redevelopment Authority ("BRA"), in connection with its Report and Decision on the application to organize Medical Area Total Energy Plant, Inc. ("MATEP") adopted on October 9, 1975 and approved by the Mayor of Boston on December 8, 1975 (as amended on October 6, 1977 and approved on October 13, 1977), promulgated certain Minimum Standards For Financing, Construction, Maintenance and Management of the MATEP project (the "Minimum Standards"). A copy of the Minimum Standards is attached as Exhibit 1.

Under the terms of the Minimum Standards applicable to financing, MATEP was authorized to borrow funds from any state or federal agency or other institutional lender. In all other cases the Minimum Standards provide that financing "shall be made only with the prior written approval of the Authority as to the terms thereof and the identity of the lender or lenders, which approval shall not be unreasonably withheld."

The construction of the MATEP project is now substantially complete and, as more fully described below, MATEP intends to secure the necessary debt financing through the Massachusetts Health and Educational Facilities Authority ("HEFA"); however, as a technical matter, MATEP's shareholder-sponsor, the President and Fellows of Harvard College ("Harvard"), will be the direct obligor on the funds borrowed from HEFA and Harvard will, in turn, relend the funds to MATEP pursuant to a mortgage loan between Harvard

and MATEP. Accordingly, insofar as the Authority in interpreting the Minimum Standards it promulgated for MATEP would regard Harvard, rather than HEFA, as the lender to MATEP, we respectfully request approval of Harvard as the lender and approval of the terms and conditions of the proposed mortgage loan described below.

Background

The original application filed with respect to the MATEP project and the first amendment thereto as approved in the Report and Decision of October 9, 1975 contemplated a so-called "leveraged lease" form of financing pursuant to which Citicorp Translease, Inc. ("CTI") would acquire MATEP's stock for an initial contribution of \$100,000 and a final contribution at completion which was estimated to exceed 20 percent of the final project cost. The balance of the cost of the project was to be provided by mortgage debt from institutional lenders. Under the original plan Harvard was to be the turnkey contractor for the project and the guarantor of the lease of the project to the operating company organized by Harvard and the hospitals to be served by the project. However, the original application further contemplated that:

if, for any reason, after acquiring the stock, CTI shall be relieved of its obligation to make an additional contribution or the formula contribution does not equal at least 10% of the actual cost of the Project, then, CTI will be required to resell its stock to Harvard and Harvard will reassume the obligations under the Subscription Agreement to contribute in cash, property or services not less than 10 percent of the actual cost of the Project as the equity capital of the 121A Corporation."

These anticipated arrangements were incorporated as part of the original Report and Decision of October 9, 1975 (pages 7 through 9) and continued in the amended Report and Decision of October 7, 1977 with only minor modifications approving the possibility of tax-exempt financing in conjunction with the basic lease arrangements.

In accordance with the original Report and Decision, MATEP was organized on January 2, 1976, and its common stock issued to CTI in exchange for \$100,000. Thereafter, Harvard

commenced construction of the project for transfer to MATEP in accordance with plans and specifications approved by the BRA. However, construction cost overruns in excess of those reflected in the 1977 Report and Decision, record high interest rates and substantial delays attributable to environmental litigation relating to the project served to increase significantly the cost of the project. As a consequence of these factors, the leveraged lease form of financing originally contemplated ceased to be feasible. In accordance with the approvals originally granted, Harvard purchased the stock of MATEP from CTI for the \$100,000 initial subscription price paid by CTI and continued to finance the project internally for transfer to MATEP.

As of the present time, the construction of the plant has been substantially completed. Harvard has directly undertaken the operating role that was originally to be performed by a lessee-service corporation under the leveraged lease arrangement and has contracted to provide utilities directly to the hospitals. Steam and chilled water have been provided continuously to all of the users to be served by the plant since July of 1980. Electric service to one hospital has also been provided since February of 1981. Although construction of the electric system necessary to serve all the hospitals was substantially completed in 1982, commencement of such service has been delayed pending the completion of the additional review of certain limited environmental issues now before the Department of Environmental Quality Engineering. The final cost of the project, including architectural fees, direct construction costs, engineering fees, an allowance for Harvard funds used to finance construction, legal and consulting fees and other similar capital costs is approximately \$295 million.

Proposed Financial Arrangements

Harvard is proposing to borrow from HEFA such amounts as may be necessary to fund MATEP in an amount up to the total final cost of the project. The precise amount of the debt that will be issued by HEFA will be finally determined by the HEFA Board and may include debt necessary to fund certain debt service reserves required in connection with the HEFA bond or note issue. The net proceeds of the HEFA issue available to Harvard, which will not exceed the final cost of the project, will be used to capitalize MATEP in the following manner:

1. Approximately 30 percent of the final cost of the project will be contributed by Harvard to MATEP with respect to MATEP's stock in conformity with Section 7 of Chapter 121A and the Report and Decision of the BRA dated October 9, 1975 as amended.
2. The balance of the final cost of the project will be paid for by a purchase money mortgage issued by MATEP to Harvard. The mortgage is expected to be approximately 70 percent of the final cost and under no circumstances will the mortgage debt exceed 90 percent of the final cost of the project. The term of this debt will not exceed the aggregate anticipated term of the HEFA financing taking into account the fact that HEFA may elect to issue term debt, notes or other similar instruments that it anticipates refinancing periodically over an aggregate total term prescribed by the HEFA Board. The interest rate on the MATEP purchase money debt will not be less than the interest rate on the HEFA debt and the principal requirements will similarly conform to the principal amortization anticipated in connection with the HEFA debt. If the HEFA Board requires the creation of construction reserves in connection with the project, a corresponding deferral will be imposed in connection with the capitalization of MATEP pending the release of such reserves.

The extent, if any, to which HEFA may require Harvard to pledge either the MATEP mortgage debt or Harvard's stock interest in MATEP has not been finally determined by the HEFA Board.

Simultaneously with the capitalization of MATEP, it will acquire all of Harvard's right, title and interest in the plant and will enter into an operating agreement with Harvard. Under the operating agreement, Harvard will be obligated to pay to MATEP annually such amounts as are necessary to meet MATEP's mortgage obligations, its obligations under the contract with the City of Boston authorized under Section 6A of Chapter 121A and all maintenance and repair expenditures and direct operating expenses. Harvard or its designee will be entitled under

the agreement to operate the plant in the manner necessary to meet Harvard's obligations to the hospitals and others that have contracted to acquire from Harvard the utilities produced by the plant.

Conformity to BRA-approved Minimum Standards

As indicated above, the plant is presently substantially complete. There have been no changes in the nature of the project, the services to be provided or the type and character of the buildings comprising the project from those specified in the Report and Decision of the BRA on October 13, 1977, and there have been no material changes from the detailed plans and specifications previously provided.

Subject to the exception noted below, the present financing arrangements for MATEP are in general conformity with the financing arrangements that were anticipated and approved as alternative arrangements in the event that leveraged lease financing was unavailable. Harvard has, as contemplated, reacquired the stock originally issued to CTI and presently owns all the stock of MATEP. The proposed financing arrangement conforms to the Harvard guarantee that MATEP's debt will not exceed 90 percent of the final cost of the project (although Harvard itself may borrow its equity contribution). Under the proposed operating agreement, Harvard itself will fulfill the role originally contemplated for the "operating lessee." Thus, Harvard has contracted to provide the utilities to the hospitals and will, pursuant to the operating agreement, guarantee the payments needed by MATEP to service the MATEP debt and operating expenses, including funds necessary to permit MATEP to meet its obligations under the contract with the City of Boston authorized under Section 6A of Chapter 121A.

The primary variation between the alternate financing aspects of the project originally contemplated by the Report and Decision and the proposed arrangement is the identity of the direct obligee of MATEP under the debt portion of MATEP's approved capital structure. Under a leveraged lease arrangement, for federal income tax purposes, Harvard could guarantee the lease and thereby indirectly guarantee the debt issued by MATEP, but the direct guarantee of MATEP debt would not have been permitted. As a consequence of the inability to proceed with the leveraged lease structure, such restrictions are no longer applicable, and it is desirable from the credit standpoint to have Harvard as

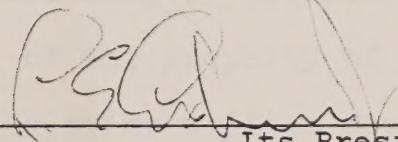
April 22, 1983

direct obligor of the HEFA debt used to fund MATEP. In this context, while the Minimum Standards applicable to MATEP financing promulgated by the BRA permit direct MATEP obligations to be issued to a state agency without advance approval, debt financing from parties other than "institutional lenders" requires advance approval. In this connection, while Harvard probably qualifies as an "institutional lender" for many purposes, that designation in the Minimum Standards for a particular project may be interpreted as inherently requiring the obligee to be independent of the shareholder of MATEP. Accordingly, in conformity with Section 1 of the Minimum Standards promulgated by the BRA, MATEP and Harvard respectfully request the advance written approval to the issuance of MATEP's mortgage debt on the terms and conditions described above and the advance written approval of Harvard as the lender.

Respectfully submitted,

MEDICAL AREA TOTAL ENERGY PLANT, INC.

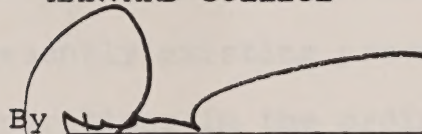
By



Its President

PRESIDENT AND FELLOWS OF
HARVARD COLLEGE

By



Vice President for Administration

MINIMUM STANDARDS FOR FINANCING, CONSTRUCTION
MAINTENANCE AND MANAGEMENT OF PROJECT UNDER
CHAPTER 121A OF THE MASSACHUSETTS GENERAL LAWS, AS AMENDED

1. Financing. The initial financing of the cost of the Project shall be in accordance with the provisions of Paragraph 8 of the Application. Subject to the presently existing provisions of Chapter 121A, any future financing by the corporation relative to all or substantially all of the property of the 121A Corporation may be made without the approval of the Authority if with a bank, insurance company, savings bank, state or federal agency or department, or other recognized institutional lender. All other financing by the 121A Corporation involving all or substantially all of the property of the 121A Corporation shall be made only with the prior written approval of the Authority as to the terms thereof and the identity of the lender or lenders, which approval shall not be unreasonably withheld. Subject to the presently existing provisions of Chapter 121A, financing of operations in the ordinary course of the business of the corporation shall not require Authority approval.

2. Construction. The 121A Corporation shall cause the Project to be constructed in a good and workmanlike manner employing materials of good quality and so as to conform to this Application and zoning, building, health and fire laws,

codes, ordinances and regulations in effect in Boston, except in accordance with deviations or variations duly granted in connection with the Authority's approval of the application.

3. Maintenance. Upon completion of construction the 121A Corporation shall, at its own cost and expense keep and maintain the Project or cause it to be kept and maintained, in good repair, order and condition; and the 121A Corporation shall also, at its own cost and expense, keep in force such hazard insurance on improvements on the Project Area as may be required by such institutional lenders as may from time to time have an interest in the corporate property as mortgagee. The 121A Corporation may by lease or contract satisfy the foregoing obligations by securing the covenant of others to maintain and insure the Project in conformity with this Section 3.

4. Management. The 121A Corporation proposes to lease the Project in its entirety to the Medical Area Service Corporation, (MASCO) pursuant to a net lease. MASCO will use the Project facilities in providing services to its member institutions, charging such institutions only the cost of operations, which cost will include the rentals due under the lease. The 121A Corporation's affairs shall be managed by its officers and directors. The affairs of MASCO or any successor in interest that has the right to operate the Project under any lease or contractual arrangement shall be managed by the officers and directors of such entity.

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5. Accounting. The 121A Corporation shall keep and maintain for each year in which the Project is subject to Chapter 121A accounting records conforming to generally accepted accounting principles in which shall be recorded all sums from time to time invested in the Project or comprising any part of the cost thereof as hereinafter defined and all information necessary for the computation of (a) the amounts which the 121A Corporation is required to pay pursuant to the provisions of Sections 10 and 15 of Chapter 121A of the General Laws as now in effect, and (b) the maximum amounts which the stockholders of the 121A Corporation shall be entitled to receive and accept pursuant to the provisions of Section 9 of said Chapter 121A as now in effect. For purposes of said Section 9, the value of any consideration paid for the stock of such corporation other than in cash shall be determined in accordance with said Application. Following the close of each calendar year the 121A Corporation shall cause to be prepared annual financial statements conforming to generally accepted accounting principles and all such statements shall be certified by independent public accountants of recognized standing selected and paid for by the 121A Corporation. The Authority shall at all reasonable times be permitted to examine and audit all such accounting records and may, in its discretion and at its expense, employ independent public accountants to examine and audit such statements and records.

The cost of the Project shall be determined by the addition of the following items of expense heretofore or hereafter incurred by the Applicants, or by the L21A Corporation in connection with the planning and construction of the Project:

- (i) Architectural engineering and legal fees and expenses.
- (ii) Cost of the land and cost of site preparation.
- (iii) Cost of maintaining the site and improvements prior to and during the construction period.
- (iv) Cost of all real property improvements and all personal property used or to be used in the construction, operation, use, management and maintenance of the Project including without implied limitation, the buildings, fixtures, machinery and equipment, distribution systems and all related and appurtenant facilities which, under the generally accepted accounting principles, would be treated as capital expenditures.
- (v) Fees, taxes, assessments and excises and similar payments (including payments

pursuant to said Chapter 121A) prior to and during the construction period.

(vi) Interest and other financing costs and expenses during the construction period.

(vii) Any other direct and indirect expenses which, under generally accepted accounting principles, would be treated as capital expenditures.

For the purpose of the computation required by Section 15 of Chapter 121A of the General Laws as now in effect, any mortgage loan with respect to the Project shall be amortized in accordance with the schedule approved by qualified lenders; a reserve for depreciation shall be maintained with respect to the Project, to which shall be added each year all deductions for depreciation computed in accordance with any methods allowable to the 121A Corporation under the provisions of the United States Internal Revenue Code, and only such dividends shall be deducted from gross receipts as have been paid or are then payable in accordance with the provisions of Section 9, of Chapter 121A as presently in effect.